



Report to the Auburn City Council

Action Item 4
Agenda Item No.
City Manager's Approval <i>[Signature]</i>

To: Honorable Mayor and City Council Members
From: George E. Williams, City Treasurer
Andy Heath, Administrative Services Director
Date: June 27, 2011
Subject: Quarterly Report of Investments – Quarter Ending March 31, 2011

The Issue

The City Council is required by state law and the City of Auburn's Investment Policy to receive and review a Quarterly Investment Report.

Recommended Action Requested

Receive, review and file the "*City of Auburn Quarterly Investment Report*" for the quarter ending March 31, 2011.

Background

The City of Auburn Quarterly Investment Report (Investment Report) for the quarter ending March 31, 2011 has been prepared in compliance with the reporting requirements as set for in the State of California Government Code Sections 53600 et seq. and the City of Auburn Investment Policy. The Investment Report contains the following information:

- Identification of the type of each investment held in the City's Treasury;
- Identification of the legal name of the issuer or fiduciary of each investment held in the City's Treasury;
- A listing of the dollar amount invested for each item in the Treasury Portfolio;
- A listing of the maturity date of those investments having fixed maturities;
- A confirmation that the reported investments conform to the City's adopted investment policy; and
- A confirmation of the City's ability to meet its pooled expenditure requirements for the next six months.

Analysis**INVESTMENT SUMMARY***City of Auburn Pooled Investment Accounts:*

<i>For the quarter ended:</i>	<u>March 2011</u>	<u>December 2010</u>	<u>March 2010</u>
Portfolio value – end of quarter:	\$10,152,875	\$8,671,997	\$9,430,800
Portfolio effective yield – end of quarter:	2.08%	2.03%	2.15%
Dollar-weighted days to maturity – end of quarter:	941	694	742
Portfolio interest earnings (1) – end of quarter:	\$51,578	\$47,053	\$51,552
Net unrealized gain / (loss) (2) – end of quarter:	\$(6,615)	\$(40,746)	\$(3,487)

Auburn Urban Development Authority Account:

<i>For the quarter ended:</i>	<u>March 2011</u>	<u>December 2010</u>	<u>March 2010</u>
Portfolio value – end of quarter:	\$1,924,229	\$1,923,017	\$2,909,556
Portfolio effective yield – end of quarter:	0.78%	0.78%	2.58%
Dollar-weighted days to maturity – end of quarter:	166	182	266
Portfolio interest earnings (1) – end of quarter:	\$1,212	\$26,785	\$2,416

Sewer Revenue Bond Proceeds Account

<i>For the quarter ended:</i>	<u>March 2011</u>	<u>December 2010</u>	<u>March 2010</u>
Portfolio value – end of quarter:	\$2,593,754	\$2,593,678	\$6,988,977
Portfolio effective yield – end of quarter:	1.64%	1.64%	0.97%
Dollar-weighted days to maturity – end of quarter:	375	556	304
Portfolio interest earnings (1) – end of quarter:	\$76	\$21,745	\$5,334

- (1) Interest earnings on investments distributed to City during reporting quarter.
- (2) Unrealized “paper” gains / (losses) on investments due to fluctuations in market value. Unrealized gains and losses impact interest earnings each month as the City is required to account for and book investments at marketable value.

PORTFOLIO / TREND ANALYSIS

As a means to account for the investment of both Auburn Urban Development Authority (AUDA) and Wastewater Treatment Facility Upgrade Project bond proceeds received in October 2008 and August 2009, respectively, the Investment Report includes appropriate analysis for these separately invested funds. In addition to the table presented as part of the Investment Summary above, attachments to this report have also been updated to include appropriate investment information related to the bond proceeds held in trust.

Attachment A provides detailed information for each of the City’s investments as of the quarter ended March 31, 2011. Investments are categorized into one of five groups:

Fixed Rate Investments: Investments purchased which pay interest on a periodic basis at a fixed coupon / stated rate. Discounted commercial paper is also included in this group. Fixed Rate Investments, consistent with the City’s Investment Policy, are generally held to maturity and not sold in the open market.

Pooled Investments: Monies pooled with the State of California (Local Agency Investment Fund) and Placer County (County Investment Pool) which are generally available on a daily basis.

Unrestricted Financial Institution Investments: Unrestricted operating account monies available in demand accounts for accounts payable, payroll and jet fuel-related accounts. Certificates of deposit and money market accounts are also included with this group.

Restricted Financial Institution Investments: Restricted demand accounts maintained for the payment of obligations for designated city programs.

AUDA / Sewer Revenue Bond Proceeds: All bond proceeds are invested separate from the pooled investment accounts. Bond proceeds are invested consistent with anticipated project payment schedules and have been placed in the CDARS Certificate of Deposit Program, which is 100% FDIC insured. Matured CDARS investments remain with the Bond Proceeds Trustee in a liquid money market account until drawn on by the City to cover applicable project expenditures.

Attachment B provides investment trend information for the last nine quarters. The City's investment portfolio yield as of March 31, 2011 is 2.08%. The effective yield has increased 5 basis points (0.05%) when compared to the yield reported for quarter ended December 31, 2010 (2.03%). The slight increase in yield can be primarily attributed to the reinvestment of maturing and/or called securities into higher yielding securities.

During the quarter ended March 31, 2011, the City realized \$51,578 in investment earnings. In addition to the investment earnings, the City experienced a \$6,615 unrealized loss in portfolio market value. Unrealized market gains and losses, which are required to be amortized into the portfolio value, fluctuate from month-to-month in response to overall market conditions.

As discussed in previous investment reports, Lehman Brothers, the fourth largest investment bank in the United States at the time, filed for bankruptcy on September 15, 2008. The Lehman Brothers bankruptcy, which followed by only a week the Federal Government "bail out" of Fannie Mae and Freddie Mac, provided an indication of the severe financial market turmoil to come as a result of the unwinding of loose lending policies and excessive credit provided during the housing boom over the past decade. At the time of the Lehman bankruptcy, the City owned a medium-term corporate bond in Lehman Bros. Holdings in the amount of \$125,000. The value of the bond as of March 31, 2011 was \$32,031. The unrealized loss of \$92,969 has been fully amortized as a component of the unrealized investment gains and losses.

In response the bankruptcy action taken by Lehman, City staff continues to monitor ongoing bankruptcy proceedings (the City has filed a claim) and the investigation and prosecution of a case against certain individuals or entities responsible for losses stemming from the City's investment in Lehman Bros. Staff is currently working with appointed counsel in an effort to recover a portion of the investment loss via the mediation process.

During the quarter ended March 31, 2011, the City's pooled investment portfolio increased by approximately \$1.48 million (not including bond proceeds held in trust). The increase in portfolio value can be primarily attributed to the January 2011 receipt of the first property tax installment passed through from the County.

All investments held at December 31, 2010, with the exception noted below, conform to the City's Investment Policy and the State of California Government Code. Based on the Administrative Services Department's cash flow projection as of March 31, 2011, funds on deposit and anticipated revenue collections for the period April 1, 2011 through September 30, 2011 are sufficient to meet all anticipated City expenditures during the same period.

INVESTMENT POLICY EXCEPTION

As of March 31, 2011, the City's Pooled Investment Portfolio dollar-weighted days-to-maturity (portfolio duration) was 941 days, exceeding by 181 days the policy limit of two years or 730 days. This inadvertent policy exception was corrected on April 15, 2011 with the call of both a \$1,000,000 Federal Home Loan Bank Bond and \$500,000 Federal Home Loan Mortgage Corporation Bond. Subsequent to the called bond transactions, the portfolio duration was 690 days.

PORTFOLIO INVESTMENT EARNINGS

Below is a comparison of actual Investment earnings on the City's portfolio to the fiscal year 2010-11 budget.

<u>Net Investment Earnings</u>	<u>Yield</u>	<u>General Fund</u>	<u>Other Funds</u>
<i>Three Months Ending 03/31/11</i>			
Budget	2.00%	\$ 22,500	\$ 177,488
Actual (1)	2.31%	<u>16,125</u>	<u>145,041</u>
Variance		<u>(\$ 6,375)</u>	<u>(\$ 32,447)</u>

(1) Includes all portfolio funds (pooled investments and bond funds) and amortization of unrealized market value loss

Alternatives Available to Council; Implications of Alternatives

1. Request the City Treasurer to prepare supplemental information for review by the City Council at a future meeting.

Fiscal Impact

The current year-to-date yield on investment earnings actually received for the City's portfolio of investments is 2.08%. An average yield of 2.00% was forecasted in the City's adopted budget for Fiscal Year 2010-11. Attainment of interest revenues consistent with forecasted yields is directly contingent on average cash balances held in citywide funds.

Attachment A – Investment Portfolio Analysis

Attachment B – Treasury Investment Pool Quarterly Comparison

City of Auburn
Portfolio Analysis
Quarter Ending March 31, 2011

Attachment A

3/31/2011

	Market Value	Current Yield	Dollar Weighted Days to Maturity
<u>Fixed Rate Investments</u>			
US Government Bonds	\$ 6,020,803	2.26%	1,507
Corporate Notes	296,442	4.53%	586
Negotiable Certificates of Deposit	197,101	4.03%	61
Subtotal:	<u>\$ 6,514,346</u>		

Dollar-Weighted Average Yield: 2.42%
Dollar Weighted Days to Maturity: 1,422

Pooled Investments

State of California LAIF	\$ 42,030	0.51%	1
Placer County Investment Pool	2,186,103	2.06%	1
Subtotal:	<u>\$ 2,228,133</u>		

Dollar-Weighted Average Yield: 2.03%
Dollar Weighted Days to Maturity: 1

Unrestricted Financial Institution Investments

Wells Fargo Bank - Commercial Checking	\$ 360,880	0.00%	1
Wells Fargo Bank - Payroll Checking	77,236	0.00%	1
Wells Fargo Bank - Aviation Fuel Account	8,446	0.10%	1
Citizens Bank - Cert of Deposit	255,039	0.75%	226
Community First Bank - Cert of Deposit	500,000	1.11%	473
UMPQUA Bank Money Market	119,959	0.54%	1
Southwest Securities (Money Markets)	14,927	0.05%	1
	<u>\$ 1,336,487</u>		

Dollar-Weighted Average Yield: 0.61%
Dollar Weighted Days to Maturity: 221

**City of Auburn
Portfolio Analysis
Quarter Ending March 31, 2011**

Attachment A

3/31/2011

	Market Value	Current Yield	Dollar Weighted Days to Maturity
<u>Restricted Financial Institution Investments</u>			
Bank of America - Chiropractic Checking	\$ 4,518	0.00%	1
Bank of America - Vision Checking	1,429	0.00%	1
Bank of America - Dental Checking	10,337	0.00%	1
Bank of America - Landfill Closure Account	41,584	0.07%	1
Placer Sierra Bank - AUESD Relocation Account	16,041	0.00%	1
	<u>\$ 73,909</u>		
 Dollar-Weighted Average Yield: 0.04%			
Dollar Weighted Days to Maturity: 1			

Unrestricted Investment Portfolio Valuation	\$ 10,078,966	2.09%	948
Restricted Investment Portfolio Valuation	\$ 73,909	0.04%	1
Total Pooled Investments Portfolio Valuation	<u>\$ 10,152,875</u>	<u>2.08%</u>	<u>941</u>
Total AUDA Bond Proceeds Account	<u>\$ 1,924,229</u>	<u>0.78%</u>	<u>166</u>
Total Sewer Revenue Bond Proceeds Account	<u>\$ 2,593,754</u>	<u>1.64%</u>	<u>375</u>

**City of Auburn
Bond Maturity - Detail
Quarter Ending March 31, 2011**

Attachment A

3/31/2011

<u>US Agency Bonds</u>	<u>Market Value</u>	<u>Current Yield</u>	<u>Maturity</u>
Federal National Mortgage Assn (\$500K)	533,725	3.86%	5/28/2013
Federal Farm Credit Bank (\$750K)	752,123	1.70%	2/14/2014
Federal Home Loan Bank (\$500K)	496,750	1.64%	7/29/2014
Federal Home Loan Mtg Corp (\$500K)	500,560	3.00%	4/15/2015
Federal Farm Credit Bank (\$1,000K)	981,480	1.88%	8/24/2015
Federal Farm Credit Bank (\$750K)	754,365	2.78%	2/16/2016
Federal Home Loan Bank (\$1,000K)	1,000,830	1.00%	2/17/2016
Federal Home Loan Bank (\$1,000K)	1,000,970	3.00%	3/15/2016

Subtotal: \$ 6,020,803

Dollar-Weighted Average Yield: 2.26%
Dollar Weighted Days to Maturity: 1,507

Corporate Notes

Lehman Brothers Holdings (\$125K)	32,031	0.00%	1/18/2012
Citigroup, Inc (\$125K)	131,904	5.02%	10/17/2012
Merrill Lynch (\$125K)	132,507	5.14%	2/5/2013

Subtotal: \$ 296,442

Dollar-Weighted Average Yield: 4.53%
Dollar Weighted Days to Maturity: 586

Negotiable Certificates of Deposit

Capmark Bank (\$98K)	98,548	4.03%	5/31/2011
Provident Bank (\$98K)	98,553	4.03%	5/31/2011

Subtotal: \$ 197,101

Dollar-Weighted Average Yield: 4.03%
Dollar Weighted Days to Maturity: 61

UBOC Total Valuation	\$ 6,514,346	2.42%	1,422
Cost Basis	\$ 6,569,859		
Net Unrealized Gain / (Loss)	\$ (55,513)		

**CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS**

Attachment B

	Investment Amounts at 03/31/11	Current Investment Yield	Investment Amounts at 12/31/10	Current Investment Yield	Investment Amounts at 09/30/10	Current Investment Yield
State of California L.A.I.F.	\$ 42,030	0.51%	\$ 41,982	0.47%	\$ 41,927	0.51%
Placer County Treasury Investment	2,186,103	2.06%	2,176,086	1.70%	2,166,262	2.15%
US Gov't/Agency Bonds (held by UBOC)	6,020,803	2.26%	4,532,350	2.25%	5,067,490	2.22%
Negotiable Certs. of Deposit (held by UBOC)	197,101	4.03%	198,775	3.99%	299,033	3.97%
Corporate Notes (held by UBOC)	296,442	4.53%	418,261	4.78%	421,610	4.77%
Southwest Securities (Formerly ML Stern)	14,927	0.05%	14,927	0.05%	14,927	0.05%
Citizens Bank (CDARS Program)	255,039	0.75%	256,897	0.95%	256,290	0.95%
Wells Fargo Bank (Checking / Payroll / Fuel)	446,562	0.00%	309,501	0.00%	936,541	0.00%
Bank of America (Landfill Trust Account)	41,584	0.07%	70,880	0.10%	65,825	0.10%
Bank of America (Vision Account)	1,429	0.00%	1,472	0.00%	1,498	0.00%
Bank of America (Dental Account)	10,337	0.00%	10,449	0.00%	10,469	0.00%
UMPQUA Bank (Money Market Demand)	119,959	0.54%	119,796	0.55%	119,627	0.61%
Community First Bank (Cert. of Deposit)	500,000	1.11%	500,000	1.11%	500,000	2.27%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,518	0.00%	4,580	0.00%	4,643	0.00%
Totals	\$ 10,152,875	Overall Yield = 2.08%	\$ 8,671,997	Overall Yield = 2.03%	\$ 9,922,183	Overall Yield = 2.08%
AUDA / Sewer Bond Proceeds Accounts						
Reliance Trust - AUDA (CDARS Program)	\$ 1,924,229	0.78%	\$ 1,923,017	0.78%	\$ 1,958,182	3.82%
Reliance Trust - Sewer (CDARS Program)	\$ 2,593,754	1.64%	\$ 2,593,678	1.64%	\$ 3,879,191	1.24%
Summary of Investments						
	3/31/2011		12/31/2010		9/30/2010	
State Pool	0.3%	\$ 42,030	0.3%	\$ 41,982	0.3%	\$ 41,927
County Pool	14.9%	2,186,103	16.5%	2,176,086	13.7%	2,166,262
Corporate Bonds	2.0%	296,442	3.2%	418,261	2.7%	421,610
U.S. Agencies	41.0%	6,020,803	34.4%	4,532,350	32.2%	5,067,490
Negotiable Certificate of Deposit	1.3%	197,101	1.5%	198,775	1.9%	299,033
Financial Institutions	9.6%	1,410,396	9.9%	1,304,543	12.2%	1,925,861
Bond Proceeds / Debt Svc Reserve	30.8%	4,517,983	34.2%	4,516,695	37.0%	5,837,373
Investment Total	100.0%	\$ 14,670,858	100.0%	\$ 13,188,692	100.0%	\$ 15,759,556

**CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS**

Attachment B

	City of Auburn Pooled Investment Accounts							
	Investment Amounts at 06/30/10	Current Investment Yield	Investment Amounts at 03/31/10	Current Investment Yield	Investment Amounts at 12/31/09	Current Investment Yield	Investment Amounts at 06/30/10	Current Investment Yield
State of California L.A.I.F.	\$ 41,869	0.56%	\$ 41,812	0.55%	\$ 41,748	0.60%	\$ 41,869	0.56%
Placer County Treasury Investment	2,153,928	2.34%	2,143,046	2.21%	2,132,456	2.08%	2,153,928	2.34%
US Gov't/Agency Bonds (held by UBOC)	4,545,006	2.22%	4,776,334	2.16%	1,532,190	3.27%	4,545,006	2.22%
Negotiable Certs. of Deposit (held by UBOC)	301,113	3.94%	401,356	3.87%	402,420	3.86%	301,113	3.94%
Corporate Notes (held by UBOC)	412,455	4.85%	421,473	4.75%	415,539	4.81%	412,455	4.85%
Southwest Securities (Formerly ML Stern)	14,927	0.09%	14,927	0.09%	14,927	0.09%	14,927	0.09%
Citizens Bank (CDARS Program)	255,678	0.95%	255,075	0.95%	1,004,808	1.72%	255,678	0.95%
Wells Fargo Bank (Checking / Payroll / Fuel)	2,117,126	0.00%	377,458	0.00%	774,777	0.01%	2,117,126	0.00%
Bank of America (Landfill Trust Account)	43,511	0.10%	70,654	0.10%	116,487	0.20%	43,511	0.10%
Bank of America (Vision Account)	3,067	0.00%	3,169	0.00%	3,238	0.00%	3,067	0.00%
Bank of America (Dental Account)	9,011	0.00%	9,051	0.00%	9,181	0.00%	9,011	0.00%
UMFQUVA Bank (Money Market Demand)	119,452	0.63%	395,633	0.64%	395,005	0.68%	119,452	0.63%
Community First Bank (Cert. of Deposit)	500,000	2.27%	500,000	2.27%	500,000	2.30%	500,000	2.27%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,708	0.00%	4,771	0.00%	4,835	0.00%	4,708	0.00%
Totals	\$ 10,537,892	Overall Yield = 1.88%	\$ 9,430,800	Overall Yield = 2.15%	\$ 7,363,652	Overall Yield = 2.20%	\$ 10,537,892	Overall Yield = 1.88%
AUDA/Sewer Bond Proceeds Accounts								
Reliance Trust - AUDA (CDARS Program)	\$ 2,633,183	2.85%	\$ 2,909,556	2.58%	\$ 3,321,478	2.53%	\$ 2,633,183	2.85%
Reliance Trust - Sewer (CDARS Program)	\$ 5,751,340	1.04%	\$ 6,988,977	0.97%	\$ 7,584,477	0.74%	\$ 5,751,340	1.04%
Summary of Investments								
	6/30/2010		3/31/2010		12/31/2009		6/30/2010	
State Pool	0.2%	\$ 41,869	0.2%	\$ 41,812	0.2%	\$ 41,748	0.2%	\$ 41,869
County Pool	11.4%	2,153,928	11.1%	2,143,046	11.7%	2,132,456	11.4%	2,153,928
Corporate Bonds	2.2%	412,455	2.2%	421,473	2.3%	415,539	2.2%	412,455
U.S. Agencies	24.0%	4,545,006	24.7%	4,776,334	8.4%	1,532,190	24.0%	4,545,006
Negotiable Certificate of Deposit	1.6%	301,113	2.1%	401,356	2.2%	402,420	1.6%	301,113
Financial Institutions	16.3%	3,083,521	8.5%	1,646,779	15.5%	2,839,299	16.3%	3,083,521
Bond Proceeds / Debt Svc Reserve	44.3%	8,384,523	51.2%	9,898,533	59.7%	10,905,955	44.3%	8,384,523
Investment Total	100.0%	\$ 18,922,415	100.0%	\$ 19,329,333	100.0%	\$ 18,269,607	100.0%	\$ 18,922,415

**CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS**

Attachment B

City of Auburn Pooled Investment Accounts	Investment		Current		Investment	Current		Investment	Current	
	Amounts	at 9/30/09	Yield		Amounts	at 6/30/09	Yield	Amounts	at 3/31/09	Yield
State of California L.A.I.F.	\$ 41,654		0.75%		\$ 41,498		1.51%	\$ 41,304		1.91%
Placer County Treasury Investment	2,119,275		2.69%		2,105,898		2.70%	2,092,554		3.08%
US Gov't/Agency Bonds (held by UBOC)	2,538,595		3.15%		2,525,625		3.16%	1,536,250		3.67%
Negotiable Certs. of Deposit (held by UBOC)	502,164		3.79%		500,845		3.81%	501,189		3.80%
Corporate Notes (held by UBOC)	408,338		4.90%		386,514		5.17%	335,740		5.96%
Southwest Securities (Formerly ML Stern)	14,927		0.09%		14,927		0.15%	14,927		0.15%
Citizens Bank (CDARS Program)	1,004,803		1.72%		1,000,041		2.13%	1,000,041		2.13%
Wells Fargo Bank (Checking / Payroll / Fuel)	1,525,946		0.01%		3,236,017		0.01%	3,588,385		0.10%
Bank of America (Landfill Trust Account)	93,998		0.20%		122,090		0.20%	112,731		0.30%
Bank of America (Vision Account)	3,305		0.00%		3,373		0.00%	3,438		0.00%
Bank of America (Dental Account)	9,281		0.00%		9,321		0.00%	9,256		0.00%
UMPQUA Bank (Money Market Demand)	516,500		0.89%		515,145		1.54%	513,048		2.54%
Community First Bank (Cert. of Deposit)	500,000		2.27%		500,000		2.27%	-		0.00%
Wells Fargo Bank (AUESD Relocation)	16,041		0.00%		16,041		0.00%	16,041		0.00%
Bank of America (Chiropractic Care Acct)	4,899		0.00%		4,964		0.00%	5,027		0.00%
Totals	\$ 9,299,726		Overall Yield = 2.26%		\$ 10,982,299		Overall Yield = 1.98%	\$ 9,769,931		Overall Yield = 2.00%
AUDA / Sewer Bond Proceeds Accounts										
Reliance Trust - AUDA (CDARS Program)	\$ 4,705,558		2.33%		\$ 4,701,907		2.41%	\$ 4,621,211		3.43%
Reliance Trust - Sewer (CDARS Program)	\$ 8,214,458		0.80%		N/A			N/A		
Summary of Investments										
	9/30/2009				6/30/2009			3/31/2009		
State Pool	0.2%	\$ 41,654			0.3%	\$ 41,498		0.3%	\$ 41,304	
County Pool	9.5%	2,119,275			13.4%	2,105,898		14.5%	2,092,554	
Corporate Bonds	1.8%	408,338			2.5%	386,514		2.3%	335,740	
U.S. Agencies	11.4%	2,538,595			16.1%	2,525,625		10.7%	1,536,250	
Negotiable Certificate of Deposit	2.3%	502,164			3.2%	500,845		3.5%	501,189	
Financial Institutions	16.6%	3,689,700			34.6%	5,421,919		36.6%	5,262,894	
Bond Proceeds / Debt Svc Reserve	58.1%	12,920,016			30.0%	4,701,907		32.1%	4,621,211	
Investment Total	100.0%	\$ 22,219,742			100.0%	\$ 15,684,206		100.0%	\$ 14,391,142	